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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 007656

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DOE FOR A/S HARBERT AND CHUCK WASHINGTON
USDOC FOR ITA/MAC/CRUSNAK

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TAGS: [ENRG](#) [BEXP](#) [IR](#) [IZ](#) [TX](#) [AJ](#) [TU](#)
SUBJECT: ENERGY MINISTER LOOKS FORWARD TO ENHANCED DIALOGUE

REF: A. BAKU 1918
[B](#). ANKARA 6386

Classified By: Ambassador Ross Wilson. Reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. Seeing opportunities for cooperation on regional gas and oil projects as well as prospects for U.S. private investment in Turkey's fast growing domestic energy sector, Energy Minister Hilmi Guler looks forward to greater dialogue and cooperation with the United States on energy issues. Guler told Ambassador December 22 he especially needs U.S. help deflecting EU and Iranian pressure to transit Iranian gas to Europe, and claimed that Turkmen and Iraqi gas projects were feasible alternative sources of supply to Europe via Turkey. Guler also hopes for a negotiated solution to disputed BOT contracts with independent power producers, but said Turkey would act unilaterally if the companies did not negotiate in good faith. Ambassador said he had spoken with DOE Secretary Bodman about attending the Baku-Tblisi-Ceyhan opening ceremony in Ceyhan in the Spring and about inviting Guler to launch a bilateral energy dialogue. Ambassador stressed his interest in collaborating with Turkey on energy, reprising the historic success of our cooperation on Caspian energy and infrastructure development. End Summary.

Minister Interested in Energy Dialogue

[1](#)2. (C) Energy Minister Guler agreed with Ambassador that more dialogue and cooperation with the United States on energy issues would be useful for both countries. He agreed that there was an opportunity to build on the success of the Baku-Tblisi-Ceyhan project and looked forward to welcoming Secretary Bodman at the inauguration of the Ceyhan terminal

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this Spring (he said the timing could be arranged to suit the Secretary's calendar). Guler also hoped to accept the

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American Turkish Council (ATC) invitation to attend the ATC March 27-29 annual meeting in Washington. If the Secretary is available, this would be a good time to launch a high-level energy dialogue. Ambassador said that DOE's interest is to have a very concrete and practical dialogue. Guler replied that this is exactly what he wants, as well.

Alternatives to Iranian Gas for Europe

[1](#)3. (C) Guler said he needs U.S. support in order to continue to deflect European and Iranian pressure to transit Iranian gas through Turkey to Europe. To do this would require developing Turkmen and/or Iraqi gas exports via Turkey. Guler said convincing Niyazov to accept a Trans-Caspian pipeline was "not impossible" and perhaps easier than the U.S. thought. Building a gas pipeline that followed the route of the existing oil pipeline from northern Iraq to the port of Ceyhan, where it could be liquified, was another option. Guler said he could not hold out against the EU pressure "forever" and suggested that developing these alternatives would provide leverage with Iran on the nuclear issue.

[1](#)4. (C) Ambassador observed that countering Iran had been one of the main motivations for BTC and the South Caucasus Gas Pipeline projects, and we remain concerned about Iran. While he was uncertain about the prospects for Iraqi gas export, Ambassador described his own history with Niyazov and the trans-Caspian idea, concluding that further work for the foreseeable future seemed fruitless. However, the Azeris had recently raised their Caspian gas reserve estimate and BP now believed it might have production volumes of up to 35 bcm or more (ref a). Turkey should work with the companies and Azerbaijan to market this gas to Europe.

U.S. Support Needed for Samsun-Ceyhan Project

15. (C) Guler also said he needed U.S. support for the Samsun-Ceyhan oil pipeline project, which would provide a new outlet for Russian and Central Asian oil that would bypass the congested Turkish Straits. He said the Straits had reached its capacity limit and that an accident in Istanbul would be devastating not only for the city, but for global oil security. Russia, Guler said, had finally understood the need for Straits bypasses, but that it is supporting the Bulgaria-Greece route. Samsun-Ceyhan, however, offered a safer route since it avoided the sensitive Aegean. He agreed with Ambassador that the project would have to be commercially viable. He said that U.S. oil companies' ability to provide throughput commitments is essential and asked for any help the U.S. Government can provide.

U.S. Investment in Domestic Energy Sector Welcome

16. (SBU) Guler said he looks for greater U.S. involvement in Turkey's domestic energy sector. He is aware of and welcomes the interest of U.S. firm AES in the planned privatization of the electricity distribution system. He said he would similarly welcome U.S. interest in Turkey's planned civilian nuclear generation program, the details of which will soon be announced. In response to the Ambassador, Guler said he also welcomes U.S. companies' input into the design of specifications and other technical details of tender documents. He noted that there were many other projects on the drawing board that could interest U.S. companies, but said budget spending limitations agreed with the IMF put these projects on hold. (This may be a reference to stalled hydropower projects under the U.S.-Turkey protocol.)

17. (SBU) Finally, Guler said he needs to negotiate changes to the electricity tariffs in BOT contracts that the GOT signed with independent power producers on "unfavorable terms" before the 2001 financial crisis. He said the companies involved were willing to change the contracts, but that their foreign creditors and insurance companies were objecting. He agreed with Ambassador that a negotiated settlement was in Turkey's best interest, but added that if this was not possible Turkey would take action in accordance with its laws and regulations. The Presidency and the Court of Accounts have prepared confidential reports of improprieties in the negotiation of the contracts that, Guler said, he would prefer not to have to make public.
WILSON